Buffalo Growth Fund

QUARTERLY
COMMENTARY

September 30, 2021

Capital Market Overview

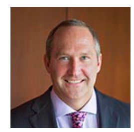
Equity market returns were somewhat mixed in the 3rd quarter, but the S&P 500 Index etched out a modestly positive return of 0.58%. The global recovery hit a speed bump during the period as the world dealt with rising COVID-19 Delta variant infections, an energy price spike, and supply chain issues that continued to constrain economic growth. After trading lower earlier in the quarter, interest rates increased later in the period in response to higher-than-expected inflation data and an admission from the Federal Reserve (the "Fed") that they would need to begin removing monetary stimulus from the economy sometime soon.

The Russell 3000 Index declined -0.10% in the quarter. Growth stocks outperformed Value stocks as the Russell 3000 Growth Index returned 0.69% versus a drop of -0.93% for the Russell 3000 Value Index. Relative performance was correlated with market cap size as large caps outperformed small caps in the quarter. The large cap Russell 1000 Index returned 0.21% compared to the Russell Midcap Index return of -0.93%. Smaller market cap indices were even more negative, with the Russell 2000 Index returning -4.36% and the Russell Microcap Index returning -4.98%. Financials were the top performing sector for the quarter, while Industrials and Materials were lagging sectors.

Fund Facts

	Investor	*Institutional*
Ticker:	BUFGX	BIIGX
Inception Date:	5/19/95	7/1/19
Expense Ratio:	0.92%	0.77%
Fund Assets:	$211.25 Million	
Category:	Large Cap Growth	
Benchmark:	Morningstar U.S. Growth Index	

Management Team



Dave Carlsen, CFA
Co-Manager since 2007
B.B.A. – Univ. of WI-Madison

Josh West, CFA
Co-Manager since 2020
M.B.A. – Univ. of MO-Columbia
B.S. – Univ. of MO-Columbia

Performance Commentary

The Buffalo Growth Fund returned 0.75% during the quarter versus the Morningstar U.S. Growth Index's return of 1.50%. The Fund's modest underperformance was driven by stock selection in the Health Care, Information Technology, and Consumer sectors, most of the relative shortfall was attributed to not owning three index constituents that did well in the quarter, namely Moderna, Netflix, and Tesla. Strong stock selection in Real Estate and Industrials acted as positive contributors relative to the index.

Average Annualized Performance (%)

As of 9/30/21	1 YR	3 YR	5 YR	10 YR	15 YR	Since Inception
Investor Class - *BUFGX*	26.56	17.68	18.43	16.79	11.75	11.27
Institutional Class - *BUIGX*[1]	26.78	17.87	18.61	16.97	11.92	11.44
Morningstar U.S. Growth Index	31.05	23.81	24.23	20.12	13.45	-
Lipper Large Cap Growth Fund Index	26.86	21.45	22.14	18.70	12.21	9.97
Morningstar Large Growth Category	26.60	19.75	20.68	17.93	11.93	9.90

[1]For performance prior to 7/1/19 (Inception Date of Institutional Class), performance of the Investor Class shares is used and includes expenses not applicable and lower than those of Investor Class shares. Data represented reflects past performance and is no guarantee of future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original value. Current performance may be lower or higher than the performance quoted. Performance current to the most recent month end may be obtained by visiting the Funds' website at buffalofunds.com. Each Morningstar category average represents a universe of funds with similar objectives.

BUFFALO FUNDS

↑ Top Contributors

Microsoft Corporation was a top contributor in the 3rd quarter, driven by the announcement of a 9-25% price increase across its Commercial Office365 product suite. The company is a prime beneficiary of workplace digital transformation and the move from on-premise IT infrastructure to the cloud. As the economy emerges from the pandemic, Microsoft is well positioned to gain share of rising IT budgets.

Alphabet Inc. was also a top contributor in the quarter. The company experienced improving growth in its leading digital advertising businesses, following a relatively cautious ad budget environment through most of last year. Alphabet is poised to benefit in 2021 as digital advertising budgets expand alongside improving economic conditions.

Palo Alto Networks, a leading network security solutions provider, was another strong contributor in the quarter. Investors cheered better-than-expected billings guidance for fiscal year 2022, driven by a robust spending environment and strong adoption of next generation security products. Security spending remains strong following numerous high profile cyber-attacks in recent years, while the work-from-home trend has expanded the threat landscape and coincident revenue opportunity for Palo Alto.

↓ Top Detractors

Amazon.com was a negative contributor this quarter. In the near term, some investors worry that investments may step up and hurt profitability or that the pandemic has pulled forward ecommerce adoption, contributing to above-trend growth rates in 2020 that may moderate going forward. We concern ourselves more with the long-run where Amazon should continue to disrupt markets and sustain an attractive growth rate, as its Amazon Web Services and leadership position in ecommerce capture additional share gains from on-premise computing and off-line commerce. Advertising is a burgeoning new segment with attractive profitability that could drive improved profitability, as it increases as a percentage of revenues.

TripAdvisor Inc. was caught up in general travel industry weakness during the period. The rise of the Delta variant drove some countries to reinstate lockdown measures, causing investors to push out their projections for a broad travel recovery. Additionally, their promising new TripAdvisor Plus subscription business experienced some early stage growing pains after it tweaked its offering to ensure rate-parity across the various platforms. We believe the changes will drive new partners onto the platform. TripAdvisor stands to benefit as travel demand, dining, and entertainment rebound.

Outlook

The market environment remains constructive for equity investing. Corporate earnings are recovering and interest rates remain relatively low by historical standards, providing a healthy backdrop for investors' allocation to equities. Vaccination rates are increasing worldwide, contributing to increased mobility, improved business and consumer confidence, and rapidly improving economic activity.

Supply constraints, labor shortages, shipping bottlenecks, and a slow return to work are contributing to inflation and holding back the economy in the near term, but, as these things ease, robust corporate earnings growth is poised to follow suit in, our opinion. We believe that the global reopening has been delayed, and, as these supply side bottlenecks ease, economic expansion will continue.

As we get deeper into recovery, concerns about high debt levels, corporate profit margins, decelerating growth, virus mutations, and a more hawkish Federal Reserve could affect equity valuations. Inflation and the Fed response to it will be of vigorous interest throughout the remainder of the year. In its latest public messaging, we think the Fed has already passed the threshold from Dovish to Hawkish regarding its messaging on inflation, given the persistence of supply chain constraints and rising prices.

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As the drum-beat for Fed tapering grows louder, we think the market could transition incrementally away from speculative and early cycle stocks and rotate increasingly to growth and quality, as tapering begins to reduce liquidity, while peaking growth rates cause investors to be more discerning about cyclically-oriented equities.

We believe the portfolio is well-positioned for an environment of increased economic optimism and higher long-term interest rates. But this is a result of our bottom-up process, not the implementation of any top-down view. We are under-exposed to hyper-growth companies with sky high valuation multiples because we don't think they currently present us with an attractive risk/reward profile. While we are mindful of macroeconomic fluctuations, they do not drive our investment process. We will continue to invest in businesses with solid growth opportunities, durable competitive advantages, scalable business models, and good management teams, when they are trading at attractive valuations, in our opinion. Thank you for your continued support.

Interested in more info?

For questions or to speak with a relationship manager about adding any of the 10 Buffalo Funds to your portfolio, contact:

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As of 6/30/21 the Buffalo Growth Fund top 10 equity holdings were Microsoft 11.41%, Amazon 6.60%, Apple 6.03%, Alphabet (C) 4.45%, Alphabet (A) 3.63%, Facebook 3.44%, Mastercard 3.11%, Visa 2.18%, Broadcom 2.13%, Linde 2.09%. Top 10 holdings for the quarter are not disclosed until 60 days after quarter end.

The S&P 500 Index is a capitalization weighted index of 500 large capitalization stocks which is designed to measure broad domestic securities markets. The Russell 3000 Index measures the performance of the 3,000 largest publicly held companies incorporated in the U.S. based on market capitalization. The Russell 3000 Growth Index is a market-capitalization weighted index that measures the performance of those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth rates. The Russell 3000 Value Index is based on the Russell 3000 Index, of companies with lower price-to-book ratios and lower expected growth rates which measures how U.S. stocks in the equity value segment perform. The Russell 1000 Index is a subset of the Russell 3000 Index and measures the performance of the 1,000 largest publicly-held companies incorporated in the U.S. based on market capitalization. The Russell Midcap Index measures performance of the 800 smallest companies in the Russell 1000 Index. The Russell 2000 Index is an unmanaged index that consists of the smallest 2,000 securities in the Russell 3000 Index, representing approximately 10% of the Russell 3000 total market capitalization. The Russell Microcap Index measures the performance of 2,000 small cap and micro cap companies. The Morningstar U.S. Growth Index measures the performance of U.S. stocks that are expected to grow at a faster pace than the rest of the market as measured by forward earnings, historical earnings, book value, cash flow and sales. The Lipper Large Cap Growth Fund Index is an unmanaged, equally weighted performance index of the 30 largest qualifying mutual funds (based on net assets) in the Lipper Large-Cap classification. One cannot invest directly in an index.

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